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Globalization and interdependence

Role of the United Nations in promoting development in the context of globalization and interdependence

Report of the Secretary-General

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I. Introduction

1. Following the two-day high-level dialogue of the General Assembly on the social and economic impact of globalization and interdependence and their policy implications, held on 17 and 18 September 1998, the Assembly, by its resolution 53/169 on the role of the United Nations in promoting development in the context of globalization and interdependence, decided to include in the agenda of its fifty-fourth session an item entitled "Globalization and interdependence". The present report is submitted in response to the request by the General Assembly contained in that resolution. The report has been prepared in collaboration with the United Nations Conference on Trade and Development (UNCTAD) and in consultation with the relevant organizations, in particular the World Bank, the International Labour Organization (ILO), the Food and Agriculture Organization of the United Nations (FAO), the United Nations Industrial Development Organization (UNIDO), the United Nations Development Programme (UNDP), the Economic and Social Commission for Asia and the Pacific (ESCAP), the Economic Commission for Latin America and the Caribbean (ECLAC), the Economic and Social Commission for Western Asia (ESCWA), the Economic Commission for Africa (ECA) and other organizations of the United Nations system.

2. Globalization is a subject that has been on the agenda of the United Nations system and its component organizations for a considerable period of time, both from analytical as well as normative and operational perspectives. The present report is not meant to be an analysis of the nature, dynamics or manifestations of globalization *per se*, nor a description of current work of individual organizations of the system in relevant areas. Rather, the report seeks to clarify the ways in which the complex phenomenon of globalization affects development and the implications of this interaction for the development role of the United Nations.

3. While the principal focus of the report is on the core issues of finance and trade raised in Assembly resolution 53/169, it seeks also to identify ramifications of globalization processes in other areas and to explore ways of enhancing the coherence of the United Nations system's response to these interrelated challenges. The document aims to identify and further enhance the role of the United Nations system in designing and implementing a response, both at national and international levels, to the challenges posed by globalization. The analysis at the global level is supplemented by a review of country-level trends based on responses to a questionnaire from a number of resident coordinators.

4. The recommendations of the report are designed not only to strengthen and evolve the development capacity of the United Nations system in response to the changing global environment but also to identify the issues around which further intergovernmental deliberations in the United Nations on globalization and its impact could be structured.

II. Challenges of globalization and interdependence

5. Identifying the nature and contents of globalization, in particular from the development perspective, is imperative for developing effective policy responses to its challenges. There are different ways of looking at globalization. Some of them emphasize the increased mobility of factors of production, goods and services across borders and the resultant emergence of a truly global market, others see primarily the results — and future potential — of an explosive progress in information technology, while still others view globalization primarily from societal and cultural perspectives.

6. While all these reflect certain aspects of globalization, from the development perspective the quantum change brought about by it is not internationalization of production *per se*, nor the telecommunications revolution, nor the emergence of "uncivil" society etc. It is the impact and cumulative implications of all these processes on policy making and policy implementation, both at the national and international levels that present the two principal challenges of globalization as far as United Nations development activities are concerned. As the forces of globalization affect all aspects of people's lives, the policy responses to globalization must be both comprehensive and coherent. National and international policies affecting trade, finance, social and environmental aspects must be formulated keeping in view the interrelatedness of these issues and the cumulative impact of globalization. **The challenge of bringing coherence to policy-making is thus among the first and foremost challenges posed by globalization.** Given its universality, democratic character and broad mandate, the United Nations has a clear comparative advantage in promoting such coherence both at the national and international levels.

7. Moreover, while the United Nations is an organization of sovereign Member States, the Organization by necessity finds itself more and more often in a role of promoting,

formulating and implementing policy responses that must go beyond national actions to be effective. Indeed, globalization tends to erode one of the principal marks of national authority, namely complete and exclusive control of the national currency and associated financial markets. Globally circulating monies have greatly complicated national management of money supply, exchange rates and interest levels. On the whole, the power of global financial capital is such that Governments have felt constrained to respond to the markets with sometimes severely restrictive policies often with painful consequences for the vulnerable segments of the population. Also, credit-rating agencies which assess the creditworthiness of many countries can exercise a significant influence on macroeconomic policies. National economic policies must therefore respond to world markets and the power of such market forces is so great that only coordinated and comprehensive responses can have the desired impact on market behaviour.

8. All States are increasingly vulnerable to erosion of their ability to act effectively and with authority. Many transnational processes impinge on national sovereignty. Besides trade and finance and other macroeconomic policies, one may think about global environmental degradation, the increasingly massive refugee and migrant flows, and such epidemics as acquired immunodeficiency syndrome (AIDS). These issues are varied, but they have in common that none of them can be solved by means of solely domestic policies. Individually, nation States can do little more than control the symptoms. Getting at the cause demands coordinated international action. Globalization thus has promoted increased multilateralism in some areas, for example in responding to financial crises, but much less in others. And even many of the multilateral responses have been ad hoc and time limited.

9. The globalization of production by transnational corporations, the globalization of international finance, globalization of information, large-scale movements of people and greatly increased cultural flows have not been matched by a corresponding reshaping of institutions and regulatory mechanisms. The crisis the world faces is the outcome of the fact that our institutional arrangements for economic governance have fallen way behind the realities of the growth and interdependence that we call globalization. **This institutional or governance deficit is the second great challenge of globalization.**

10. Increasingly, effective public action to manage the economy needs to be coordinated among States and, as in the case of trade, an open and rule-based system, overseen or implemented by such bodies as the World Trade Organization (WTO). Such concerted action does not necessarily weaken States; rather it can strengthen them by stabilizing the external economic environment and thus giving them greater scope to pursue national goals.

11. Without such concerted action, and without a strengthened institutional capacity to manage globalization, there is a risk that the world will witness a backlash against it. Globalization without effective and robust multilateralism is bound to lead to crisis because markets are neither inherently stable nor equitable. Where effective multilaterally agreed systems exist, such as in trade, when crises occur they are smaller, more localized, more manageable. There is a need to create similarly effective and robust multilateralism in the spheres of finance, environment and social development. The United Nations can play a major role in defining the framework for a stronger system of multilateral cooperation.

III. Policy coherence

A. Trade and finance

12. In recent years, many developing countries have based their development strategies on increasing integration into the global financial and trading systems through liberalization of their economies. This has involved opening domestic markets to foreign producers, the development of more open domestic financial markets, and the reduction of the role of government in the provision of goods and services and the allocation of financial resources. The result has been an increase in the share of external trade in national income, an increase in inflows of foreign capital, and the international diversification of the portfolios of domestic wealth owners.

13. Although policy changes have generated some economic growth in recent years, the increase in global interdependence resulting from these trends poses problems regarding the coherence, complementarity and coordination of global economic policy making. These problems comprise those arising from interactions between different country policies as well as from the differing mandates and jurisdictions of international institutions. For example, the ability of developing countries to achieve their growth potential, to close the gap in per capita incomes with the developed world and to maintain macroeconomic stability is significantly determined by macroeconomic policies pursued by the major industrial countries. Similarly, the scale and stability of flows of foreign direct investment and other forms of external financing, such as bank lending and portfolio investment, depend, *inter alia*, on the prospects for

economic activity and international trade, and on conditions in currency markets and the markets for other financial assets. Yet, efforts to improve coherence, complementarity and coordination of policies in these diverse but interrelated areas, not only among different countries but often among different ministries and agencies of a country, remain sporadic and frequently ineffectual. Moreover, these efforts must also rely on a set of international institutions, the compartmentalization of whose mandates and jurisdictions is not well designed for proper consideration of key connections between different issues and policy responses in different areas.

14. Increased interdependence of developed and developing countries has made trade and finance two key areas in which the introduction of coherent and complementary policies can help achieve the maximum benefits of global growth and development. In these areas it is possible to identify policy objectives that serve the interests of both developed and developing countries. For example, it has long been recognized that stable exchange rates and the steady expansion of income and employment are preconditions for the maintenance and development of a more open system of international trade.

15. Steady, sustained growth in world trade is essential to allowing countries facing external payments difficulties to undertake positive adjustment in the context of domestic economic expansion and growth in incomes, rather than contraction. However, the increasingly disruptive systemic breakdowns in the operation of international financial markets associated with financial liberalization and deregulation are generating destabilizing influences on the global trading system not only by producing instability of exchange rates and increasingly frequent drastic shifts in international competitiveness but also by promoting deflationary forces whereby adjustments to crises take the form of economic contraction and import cuts rather than of export expansion. Such adjustment was a particularly notable feature of the response in East Asia to the financial crisis beginning in 1997.

16. Fluctuations in economic activity linked to these recurring financial crises not only adversely affect longer-term prospects in developing countries (through their impact on such variables as investment) but can also have a severe impact on immediate living standards in countries where much of the population is not far from the margin of subsistence. Moreover, many developing countries are particularly vulnerable to unfavourable changes in external economic conditions owing to the small size of their economies, their specialization in a limited number of export products (usually primary commodities), and geographical constraints and lack of good access to the physical facilities required for international trade.

17. Policies for the prevention and the better management of financial crises have so far concentrated on particular areas, such as improved transparency, strengthened financial regulation, financial facilities better designed to support countries experiencing large capital outflows and currency collapses, and reduction of moral hazard problems in international lending and investment. But there have as yet been only very limited efforts to address problems due to the operation of international financial markets and to the international transmission processes for macroeconomic variables which are capable of contributing to the outbreak of financial crises and of intensifying them when they occur.

18. Financial crises in developing countries are not always homegrown. Indeed, recent crises have typically been connected to major shifts in macroeconomic indicator external to the countries where the crises first manifest themselves. Yet the scope and modalities of International Monetary Fund (IMF) surveillance do not include ways of responding to and dealing with unidirectional impulses associated with changes in the monetary and exchange-rate policies of the leading Organisation for Economic Cooperation and Development (OECD) countries capable of exerting a strong influence on international competitiveness and capital movements. At present the process of peer review under IMF surveillance lacks mechanisms providing countries subject to such impulses with any form of redress.

19. The link between external financial policies and international trade is recognized in various articles of the General Agreement on Tariffs and Trade (GATT) and the General Agreement for Trade in Services (GATS). For example, there is provision in both Agreements for trade actions as a response to balance-of-payments problems, and the relevant articles specify procedures for evaluating the justification of such actions and the IMF role in this process. However, the Agreements do not provide ways to deal with adverse mutual interactions between trading and financial problems. For example, misalignments of exchange rates, which may result from instability in currency markets, can be a source of tensions in trading relations. Indeed, during relatively short periods countries' real effective exchange rates frequently vary by amounts which are large in percentage terms in comparison with their average tariff levels, and the resulting changes, even away from equilibrium levels for their exchange rates, may persist for some time. Thus, the economic impact of movements in exchange rates can substantially exceed that of multilaterally agreed tariff changes. Yet WTO Agreements contain no

provision for responses to the distortionary effects of exchange-rate misalignments.

B. Economic, social and environmental policies

20. While interactions between the areas of trade, finance and macroeconomics have traditionally been at the centre of consideration of coherence, complementarity and coordination in global policy-making, various other issues are assuming growing importance in this regard as well as broader and deeper economic integration extends the range of subjects which frameworks of rules for international economic relations are forced to confront. These include the interactions between policies in the area of macroeconomics and finance vis-à-vis policies towards such social objectives as employment creation and poverty eradication, policies regarding debt reduction and concessional flows vis-à-vis trade (including under the latter the question of the extent to which protectionism in industrial countries increases the likelihood of or exacerbates the debt problems of developing countries); and policies for trade liberalization vis-à-vis the financial support required for their successful implementation. In such areas, improved coherence, complementarity and coordination in global policy-making require recognition of the relevant nexuses, and in some cases reformed institutional arrangements facilitating this recognition and the policy actions which it indicates as necessary.

21. Steps to improve coherence, complementarity and coordination should reflect broadly based consensus. For example, cross-conditionality should be avoided between the terms on which financing is available from international financial institutions and the rules of regimes which are the purview of other institutions or agreements (concerning, for example, the liberalization of international trade or investment). The obligations of developing countries should not exceed those undertaken in WTO. Cross-conditionality can not only be perceived as an interference with national sovereignty but can also lead to policy prescriptions that may not necessarily meet the needs of a specific situation. Thus, if based on consensus, arrangements enabling improved coherence, complementarity and coordination in global policy-making can avoid unnecessary divisiveness and conflict, while promoting fruitful forms of international economic cooperation.

22. Following the experience of the 1980s, it is now widely recognized that the costs of structural reforms and adjustment policies should not be borne by the poor; on the contrary, the need to protect social expenditures in times of budgetary cuts is now generally accepted. What is not equally well understood is the extent to which policies in industrial countries relating to, for example, agricultural subsidies, tend to distort resource allocations and constrain the capacity of poor countries to generate the resources for poverty reduction and social protection. Similarly, the lack of access to environmentally sound technologies makes it difficult for developing countries to reduce environmental degradation. Policy coherence thus needs to be seen across a broader canvas of trade, finance, social and environmental imperatives.

C. Other ramifications of globalization

23. While trade and finance are the two principal areas where the phenomenon of globalization manifests itself most profoundly, there are other areas as well that are being transformed by ongoing globalization. Wider dissemination of ideas, culture and lifestyles may lead to loss of cultural diversity. Other important features of a globalized world economy include such interrelated phenomena as, to name a few, new patterns of labour migration, new challenges and opportunities for health, and on the negative side, new opportunities for the growth of criminal activities by organized crime, such as the trade in drugs and money-laundering.

24. Perhaps the most important catalyst or lubricant for bringing about increasing globalization is the spread of information technology. This is particularly clear in the operations of financial markets, where the speed, quality, performance and reliability of information technology have become critical to market success. But it is also a major factor in most of the other manifestations of globalization. The importance of information technology was underscored by the Economic and Social Council, which adopted this same topic as the theme for the high-level segment of its substantive session of 2000.

25. Full and effective participation in the emerging global information network is crucial for a country to benefit from globalization and to avoid being marginalized. At present, most developing countries are lagging far behind in this respect. With the current explosive pace of information technology development this gap is widening rapidly. While several developing countries do have high potential in relevant human capital, in particular in software development and/or in existing manufacturing facilities, for the majority domestic efforts alone will not suffice.

26. Investing in information technology infrastructure should be a priority for any country attempting to integrate more closely into the international industrial and commercial networks. In this regard, the United Nations could assist Governments by identifying cheaper and easier-to-use forms of information technology. In a world of low-cost information and communication capabilities, countries stand to gain by concentrating on the opportunities that information technology provides. The selective application of new information technologies can facilitate access to a range of technological developments that developing countries can utilize.

27. Still, it should be noted that the overwhelming bulk of new technology is proprietary, embodied in products and processes developed by private corporate enterprise in the developed countries. The costs of acquiring such technology are considerable. Moreover, because of the restrictive nature of the protocols that governs the use of technology even its acquisition can mean that it remains limited to a particular use and is not widely diffused in the rest of the economy.

28. Investing in and acquiring new technologies, no matter how imperative for integration in the world economy, can only succeed if a country has the requisite human resources base. Thus, the conditions in which the development, innovation and wider application of technology in developing countries are facilitated ultimately depend upon human resource development. This is more than just a matter of filling in specific skill shortages. It is rather of upgrading human resources across the entire spectrum of skills in the economy. It is important to note that in cross-country productivity comparisons, differences in education and skill levels of workforces have been cited as significant explanations of the observed productivity differentials. Countries with low levels of literacy and low levels of secondary school enrolment are at a huge disadvantage. A major constraint in many countries is that the education system itself lacks the human resources to provide education to a significant percentage of the population. Large resources have to be found and directed to overcome the deficiencies in human resource development that globalization has brought to light.

29. Globalization has made the need for human resources development within countries ever more imperative as the benefits of participating in global markets can accrue only if the country has a well educated labour force that can adapt its skills quickly in response to the changing demands of the global market place.

30. At the same time, globalization has further accentuated the uneven development across and between countries which has generated significant pressure for the movement of labour across borders thereby, to a certain extent, addressing the issue of human resources development. Some of it takes the form of the classic "brain drain" with relatively skilled workers migrating to developed economies. More recently, a significant proportion has taken the form of low-skilled or even unskilled workers moving, sometimes illegally, to neighbouring countries with economies growing more rapidly and thereby offering higher wages for relatively low skills.

31. In principle, the flow of labour between countries should be economically beneficial for all countries. However, while the unrestricted movement of goods and capital is accepted almost without qualification, the movement of labour tends to raise sensitive political and sociological issues. Still, it should be recognized that migration could never be eliminated or even fully controlled. In fact, with rising globalization migratory pressures will most likely increase. The challenge is to deal with it in the broader context of a coherent response to globalization in a developmental perspective.

32. While the enormous developments in the field of information technology have played and continue to play a major role in the globalization of markets and the opening of borders, those globalization forces themselves have exacerbated the already existent pernicious phenomena and interrelated problems of organized crime, drug abuse, money-laundering and corruption. Clearly, globalization has provided the environment for a growing internationalization of criminal activities.

33. There is a perverse interdependency between money-laundering and globalization: globalization has opened new opportunities for the laundering of illicit proceeds; at the same time, money-laundering impacts on the development of free and competitive markets. It provides such channels as absence of currency controls at borders; increased and instant capital flows at the international level, making it difficult to isolate suspicious transactions; dollarization of economies, thereby facilitating the circulation of dirty cash; and a multiplication of the development of offshore financial services to attract foreign investments.

34. Money-laundering also undermines international efforts towards free and competitive markets and therefore towards successful trade liberalization because it distorts the functioning of markets: money-laundering transactions can increase the demand for cash, create volatility of exchange rates and generate unfair competition; it damages the credibility and therefore the stability of financial markets.

35. Money-laundering is closely tied to the proliferation of illicit drugs and traffic in women and children over the last decade or so which has created a huge industry leaving no country immune to their economic, social, health and criminal manifestations. The illegal proceeds of illicit drug sales has created a large netherworld economy, running in the hundreds of billions of dollars, which threatens not only the institutions of the state and civil society in many countries but the stability of the world economy.

IV. Promoting global understanding

36. The effects of the intensification of the global flows of capital, goods, ideas and people are a major focus of national and international development policy dialogue. Both developing and developed countries are seeking ways to capture the benefits of increased integration and make openness work while looking to minimize the risks for their economies and for their peoples.

37. The high-level dialogue of September 1998 led to an encouraging convergence of perceptions on a number of issues concerning the nature of the phenomenon (see A/53/529):

(a) First, globalization is an irreversible process, not an option. It is a positive force, but it is also blind and therefore needs to be carefully harnessed;

(b) Second, national efforts to meet the challenges of globalization, in particular institution-building, are necessary but not sufficient. Action on a global scale, involving multilateral institutions as well as the world's leading economies, is imperative;

(c) Third, there is a need to move beyond the status quo, in particular by the review and reform of the current architecture of the international financial system with a view to enhancing its transparency, accountability and participatory character;

(d) Fourth, globalization is a multifaceted process involving many actors. In order to address effectively the issues of inclusiveness and participation, it is necessary to promote a global civil ethic to shape the rules that will ensure that globalization benefits all, including those who are currently marginalized;

(e) Fifth, the United Nations, owing to its universality and broad mandate, provides a unique platform for defining the principles and norms necessary to harness the potential of globalization and for promoting a comprehensive dialogue on globalization around such concepts as "global housekeeping".

38. While there is general recognition of the immense positive potential of globalization for advancing the development agenda, considerable attention has been given in the international debate to the marginalization of countries and groups of people within countries and to the issues of asymmetry and inequity. Globalization will be difficult to sustain and its potential will not be realized as long as vast segments of humanity remain excluded from its benefits. Under present conditions for a significant number of developing countries, particularly for the least developed and African countries, the costs of globalization have so far outweighed its benefits. Countries most in need of trade, investment and growth generated by globalization are mostly bypassed by capital flows and their share in world trade continues to decline. Small and isolated economies, such as the island countries, economies with relatively narrow production possibilities, such as many of the economies in transition, or economies with limited human resource development capacity, such as the least developed countries, remain severely constrained in their ability to derive the benefits of a globalized world economy. Globalization has, if anything, brought their structural weaknesses into sharper relief.

39. It is now widely recognized that market-driven globalization by itself will ensure neither fairness nor social progress. In fact, it has been accompanied in recent years by increased inequality within and among countries, and the number of people living in poverty has continued to increase. The asymmetric distribution of benefits and risks arising from globalization warrants a global "social contract" between developing and developed countries, based on genuine solidarity and shared responsibility and with the active involvement of non-State stakeholders with a view to creating a rule-based international system where all countries could take full advantage of the process and where the stronger countries recognize and respect the constraints of the weaker ones.

40. Globalization demands greater responsibilities from all countries. For developing countries, integration into a globalized and highly competitive world economy entails many new challenges: creating and sustaining a sound macroeconomic framework and an appropriately open, favourable and stable environment for trade and investment flows, building economic and social infrastructures and institutions, creating social safety nets, and undertaking sustained efforts to enhance the efficiency and flexibility of their economies through continuous human resource

development as well as more effective, participatory and accountable governance.

41. While most developing countries recognize their primary responsibility to undertake these tasks, few can accomplish them successfully without international assistance and a more favourable external environment. Developed countries have traditionally recognized the need to provide such assistance and help create a supportive global environment. But they have a greater responsibility to do so in the era of globalization, not only for reasons of solidarity but because it is in their interest to help establish stable conditions without which globalization cannot be sustained. Moreover, while globalization is driven by markets and technology, it has tended to extend the influence of developed countries in the world economy, as most corporations and capital flows that are the agents and vehicles of globalization belong to them. Not only do their macroeconomic, trade and exchange-rate policies have a determining influence on world economic growth but they also set the rules, standards and norms for corporate behaviour and for the functioning of their financial markets. Greater influence entails increased responsibility.

42. In a globally integrated market place, both developing and developed countries need to accept greater responsibility, transparency and accountability in policy-making. Globalization of the economy implies globalization of responsibility and response capacity. But Governments alone or even together cannot deliver without the cooperation of such key actors in the global economy as the private sector and the civil society. The private sector needs to take a longer-term view and recognize the need to respect and advance the common good while seeking to maximize profit. The civil society can help in defining the values and standards and play a watchdog role. Good global citizenship implies that each of the players and stakeholders recognizes and undertakes its responsibility. This is the essence of a better global understanding.

43. A central aspect of this understanding should be a set of shared goals and a common vision of broad-based growth and development benefiting all countries and peoples. Major joint efforts by all members of the international community are needed to devise norms for "globalization with a human face" which is supportive of human development and advances human welfare. Common responses have to be built on the broader aspirations of our global society. It is the role of the United Nations to assume normative leadership for such globalization.

44. Recent years have brought positive changes in the dynamics and tenor of the development dialogue. A consensus has been built around a set of development goals at major United Nations conferences of the 1990s. The successful adoption of the Agenda for Development, the serious and constructive approach pursued in the preparations for the high-level event on financing for development, the growing strategic partnership between the United Nations and the Bretton Woods institutions, and the broad acceptance by Member States of the need to engage the private sector and civil society have created favourable conditions for placing the development dialogue firmly on the foundation of mutuality of interests and the recognition of the imperative of equity and cooperative approaches to problems.

45. In order to develop an effective and comprehensive response to the challenges of globalization, Member States need to reach an understanding and agreement on such important issues as what are the new factors that shape the global environment in which the United Nations now operates, what new tasks are confronting the United Nations and what new modalities can be devised to tackle them, which traditional goals of the United Nations are becoming more difficult to achieve in the new environment created by globalization and interdependence, which policy tools are no longer working and why, what are the innovative ways to respond to the old and the new challenges, and how the set of development actors and partners is evolving. It is also important to identify those aspects of the hugely multifaceted phenomenon of globalization that most directly and vitally impact on development policies and activities.

46. Such questions will need to be addressed as an integral part of the effort to enhance the capacity of the United Nations to identify and promote the key elements of a better global understanding, bring all stakeholders into the developed dialogue and promote a far-reaching consensus on the actions and policies to be pursued at the national, regional and global levels.

V. Role of the United Nations

47. The United Nations is uniquely suited to assume normative leadership for "globalization with a human face". It can do so by promoting a broader vision of human development. As a first step in this direction, it needs to help devise an effective response to the twin challenges of globalization: the need for greater policy coherence and institutional capacity-building at the national, regional and global levels.

48. This implies that the development work of the United Nations, both at the analytical and normative level, and its operational activities need to be more sharply focused on meeting those challenges than is currently the case. It also implies that the United Nations will need to work very closely with key partners — the Bretton Woods institutions and other organizations of the system, Governments of both developed and developing countries, the corporate and financial sectors and civil society institutions at large — to build the necessary consensus around the need for change in policies and institutions.

A. Rules of the game and institutional capacity-building

49. As noted above, the potential benefits of globalization are vast, yet many developing countries are and will remain ill positioned to partake in these benefits unless a concerted effort is made by the international community to facilitate their integration into the world economy. Trade and finance are the two most prominent channels through which such integration occurs. But with an increasingly knowledge based world economy, technological know-how, in particular information technology and its concomitant human skills, is essential. With goods and services and capital moving increasingly frictionless and unencumbered, movements of people between countries will become more and more difficult to regulate and transnational crimes, as manifested through money-laundering, more and more difficult to contain.

50. The well-worn phrase "no nation State can go it alone" has to move from slogan to practical action. Practical action means foremost agreeing on the "rules of the game" and building institutional oversight capacity, be it in trade, finance, technology transfer, migration or transnational crime-fighting, to stay with the issues raised in the present report. The United Nations is the pre-eminent body to launch the discussions on setting those rules, norms and standards and to build consensus around the institutional arrangements needed for applying them. It does not follow that the Organization in each and every instance will actually formulate or implement those rules. In many cases those will be prepared and negotiated in other more technical forums. However, there is no other institution better placed than the United Nations to give the political impetus and legitimacy to the devising of rules, norms and standards, because it is universal and democratic in its membership and it has a broad deliberative function which allows it to consider all aspects of development issues in their political context. With this in view, the observations set out below are intended to stimulate reflection on the directions that can be pursued by the United Nations in promoting development in the context of globalization.

51. The Assembly could encourage a deepening of reflection on global economic governance in the context of globalization. As far as policy coherence and institutional capacity-building are concerned, the biannual high-level General Assembly meetings on the renewal of dialogue should provide an important opportunity for a broad-based dialogue on such issues. The themes and issues identified in the reports of the Secretary-General on the renewal of dialogue (A/50/480 and A/52/425) could be used as a frame of reference for structuring the dialogue for the next three or four rounds. Similarly, key events, such as financing for development, UNCTAD X and the five-year reviews of global conferences, if approached as a series of interrelated forums rather than separate events, should serve to advance the overall agenda of strengthening the capacity for economic governance. The Assembly could also encourage the Economic and Social Council to discuss the possibility of establishing a task force on this topic, with developing and industrialized countries and civil society representation. Such a task force could focus on the ways and means of promoting policy coherence and related institutional changes and report to the Council, IMF, the World Bank and WTO.

52. Given its system-wide coordination functions, the Economic and Social Council can make an important contribution to enhancing policy coherence. To this end, the Council could be encouraged to deepen its dialogue with the Bretton Woods institutions and WTO. It could encourage the United Nations system to develop integrated policy responses and a set of mutually reinforcing actions to address globalization, based on the outcomes of the major United Nations conferences. The Council should build on the momentum created by its efforts to promote a coordinated system-wide response to these conferences.

53. With regard to trade, notwithstanding that its regulatory aspects fall under the umbrella of WTO, the United Nations and in particular UNCTAD should continue to focus attention on issues of concern from a development policy perspective. These relate to the difficulties that developing countries, especially the least developed African countries, continue to face in market access and in diversifying their production and exports, the problems that are likely to arise when preferential access comes to an end, as well as the inability of poor and small countries to effectively participate in multilateral negotiations and to take advantage of WTO dispute settlement mechanisms.

54. Following the adoption of the ministerial declaration on market access by the Council at the high-level segment of its substantive session of 1998, the Assembly could encourage continued deepening of trade liberalization by developed and developing countries, in particular in sectors of export interest to developing countries. Appropriate arrangements for consultations between the Council and the WTO Council could also be considered to examine how to better integrate the developmental perspective into the trade arena. Consideration could also be given to creating an independent legal aid facility and an ombudsman to support developing countries in WTO.[1] In November 1999, the Third Ministerial Conference of WTO will take place and it is likely that it will launch a new round of multilateral trade negotiations. The General Assembly may wish to embrace and promote the idea of making this round into a "development round". In this regard, a consultative meeting between the United Nations and WTO could be organized following the Seattle ministerial meeting of WTO.

55. With regard to financial flows and in view of the recent Asian crisis, a number of proposals have already been made to regulate them more effectively. The development of early warning systems, strengthening institutional arrangements to monitor and in due course regulate financial flows, and the promotion of regional financial cooperation are some of the matters on which an open international debate should be pursued, a debate to which the United Nations could make a significant contribution.

56. International action to manage and prevent crisis and financial volatility is crucial. In this regard, attention should be given to the proposal made in the *Human Development Report 1999* that the Council, the World Bank and IMF could consider commissioning an international study on regulatory gaps, especially for short-term bank loans, reversible portfolio flows and hedge fund activities. The international community should also pursue its reflection on how to improve institutions for early warning and crisis management. Although many proposals have been made to this end, such as regarding a lender of last resort or the granting of decision-making power to the IMF Interim Committee, the results so far have been limited.

57. Thus far, all the initiatives taken in this critical area, whether at the G-7 or G-22, have tended to exclude or limit the participation of developing countries. The Financial Stability Forum set up at the Bank for International Settlements (BIS) to examine issues arising from the crisis does involve developing countries but only through their participation in ad hoc working groups. Ways to ensure more formal and institutionalized developing country participation should be devised in such bodies as BIS for the consideration of issues relating to the reform of the international financial system. Indeed, the United Nations itself should seek to contribute to the direction that reform should take. The high-level meetings of the Economic and Social Council with the Bretton Woods institutions should be used as an important opportunity for policy makers to address the need for coherence in financial, macroeconomic and development cooperation policies and for the airing of new ideas and initiatives.

58. Narrowing the gap between rich and poor countries as well as between rich and poor people within countries should be a broader goal, encompassing many of the goals and targets agreed at the world conferences of the nineties. The Economic and Social Council should focus on monitoring in the context of its review of the follow-up to global conferences, the achievement of that goal, in consultation with the Bretton Woods institutions.

59. The United Nations should continue to encourage and assist Governments in developing new social policies better adapted to the new realities of the global economy, especially to address employment in changing labour markets, and promote redistribution, social services and social safety nets. The initiative taken by the World Bank Development Committee to request the United Nations to develop and refine the principles and good practice in social policy, and the work under way in the Social Development Commission are particularly relevant in this regard.

60. The ministerial communiqué entitled "The role of employment and work in poverty eradication: the advancement and empowerment of women", adopted by the Economic and Social Council at the high-level segment of its substantive session of 1999, successfully integrates the employment, gender and poverty eradication goals within a coherent policy framework. The Assembly could welcome the Council's ministerial communiqué and call for its implementation by Governments and the United Nations system.

61. With respect to technology, the United Nations must continue to urge the creation of international conditions for improved access and transfer of technology to developing countries, including through the full implementation of the Trade-related Intellectual Property Rights Agreement, and the expansion of national capacities for the development and diffusion of technology, for instance, through training systems that provide opportunities to workers to renew and upgrade their skills.

62. Stronger public action is also needed to support the development of new technologies for human development and the eradication of poverty. The Economic and Social

Council at the high-level segment of its substantive session of 2000, when it considers the role of information technology, could examine ways to ensure that developing countries' interests are addressed in the decisions on and governance of global communications and of the Internet in particular. It could also consider the launching of an international programme to support public investment in technologies for the needs of poor people and poor countries, based on the model of the Consultative Group on International Agricultural Research (CGIAR), as proposed in the *Human Development Report 1999*.

63. National capacity-building with respect to information technology is particularly important. However, this cannot be achieved without international assistance. Currently such assistance is, in most cases, confined to the provision of hardware and relevant training. In order to have more than a fragmentary and rather short-lived effect, it would need to enlist first and foremost an active involvement — in policy formulating as well as in implementation and financing — of the international business community, in particular of telecommunications, electronics and computer industries. Second, it would have to be based upon a policy framework agreed at an intergovernmental level. Third, it would comprise a significant element of South-South cooperation. Fourth, NGOs would have to be called upon to, in particular, mobilize volunteers for a sustained training/field operations programme.

64. In this regard, and building on the successful year 2000 initiative at the United Nations, the Assembly could request the Economic and Social Council to consider at the high-level segment of its substantive session of 2000 the feasibility of establishing a group comprising of representatives of national Governments, world business community, the United Nations system (including the Bretton Woods institutions), non-United Nations development agencies, regional/interregional organizations and NGOs to spearhead a global effort to enhance the integration of developing countries in the emerging global information network. The group would be charged with developing such a programme and laying out policy guidelines aimed to ensure synergy of activities of the constituent groups, sustainability and comprehensiveness of the programme's coverage.

65. Engaging with non-governmental actors should go well beyond technology issues, however. Due to the increasing policy role by such actors as private business as well as NGOs and other components of civil society, the United Nations response to the challenges of globalization must involve building new partnerships with these groups. In this context, implementation of the Secretary-General Davos initiative would be instrumental.

66. For combating such negative phenomena as drugs, organized crime and money-laundering, strengthened international cooperation by combining national efforts, the adoption of multilateral norms and international codes of conduct, as appropriate, and the development of multilateral regional or subregional cooperation, wherever suitable, are obvious areas requiring ongoing United Nations initiatives and action. Indeed, in all these matters the United Nations can and should play a central role, partly by identifying the problems that need to be addressed and partly by devising solutions that can be implemented by enhanced cooperation among countries.

B. Operational activities for development

1. Increasing national capacity to manage globalization

67. The United Nations system supports developing countries and economies in transition in their efforts to enhance their capacity to manage positive and negative implications of globalization and interdependence in many ways at the country level. The challenge for operational activities of the system is to evolve and adapt in order to respond to the new demand coming from countries that want to take greater advantage of the new opportunities opened by increased trade, capital flows and technological progress.

68. Although the countries themselves, their Governments and their people, have the primary responsibility of defining, at the country level, the course of action required to deal with these issues, international cooperation has an important role to play. The United Nations system's contribution should be seen together with other efforts of the international community and as a support to national efforts.

69. Operational activities for development of the United Nations system assist countries in pursuing their national goals within the framework of sustainable human development which constitutes the best response to the challenges of globalization and interdependence. In this context, the primary purpose of operational activities should be to contribute to the expansion of national capacity to take advantage of the positive implications of globalization and to deal with its negative implications. To this end, a sharper focus should be placed on pursuing, *inter alia*, the following objectives:

(a) Help to develop a coherent and integrated policy framework encompassing the macroeconomic, financial, social and environmental aspects;

(b) Assist in human resource development;

(c) Establish an enabling environment to expand foreign and domestic investment;

(d) Diversify and expand domestic production as well as import-export trade;

(e) Facilitate and fully use the benefits of technological transfer;

(f) Expand capacities to deal with external debt management;

(g) Assist in mitigating the adverse social impact of economic crisis, particularly on the weak and vulnerable groups.

70. The resident coordinator system is the principal instrument for the United Nations to play the role of a neutral conveyor for policy dialogue in interested countries, under the leadership of the Government. Drawing on the development goals and policies agreed upon in major United Nations conferences as benchmarks, the United Nations system can support countries that request it by providing a framework for advocacy and mechanisms to link local, regional and global policies and actions. Combined efforts of the United Nations system, including the Bretton Woods institutions, should help countries to enhance the performance of macroeconomic management, achieve greater coherence in the policies affecting economic, financial, social and environmental aspects, and protect the most vulnerable groups, and thus give the concerned country an opportunity to use this support to further its national goals while integrating better into the global economy.

2. Creating an enabling environment for investment

71. The establishment of a positive "*climat d'accueil*" for foreign and domestic investment can help to encourage transfer of technology and capacity-building initiatives for trade diversification and promotion. Operational activities of the system should support national reforms that create an enabling environment for investment and other economic activities, identifying the necessary changes to regulatory frameworks and supporting institutional capacity-building. Country-level initiatives of such organizations as the Bretton Woods institutions, the International Trade Centre (ITC), UNCTAD, UNDP, UNIDO, the ILO, FAO, the World Health Organization (WHO), the World Intellectual Property Organization (WIPO) and WTO, among others, which support national reforms for the improvement of the legal framework for investment and other economic activities, should be strengthened and coordinated, as appropriate.

72. An important area that calls for enhanced support by the United Nations system is to strengthen the knowledge and capacity of developing countries to engage in multilateral trade negotiations and take advantage of WTO dispute settlement mechanisms. Such organizations as UNCTAD and WTO are involved in several countries with special assistance programmes. They undertake advisory missions and training, brainstorming meetings and workshops, establish information services at the national level and provide relevant official documentation, sometimes made available in national languages. The scope and scale of these activities need to be expanded significantly, and linkages and coordination among them needs to be strengthened to enhance their impact on capacity-building, particularly in the poor and small countries.

73. United Nations system organizations also undertake analytical studies to support national efforts to formulate liberalization policies. These studies focus on such subjects as market access, export competitiveness, dynamics of the trade patterns, transnational corporations, the role of foreign direct investment in promoting sustainable development, the effects of trade liberalization on environmental challenges, and the organization of the business community and entrepreneurship. Case studies are conducted with the involvement of the business community and the civil society. It is important that these activities be further expanded and focused clearly on the specific needs of individual countries in order for them to take full advantage of the globalization process.

3. Diversification of production and trade and transfer of technology

74. Such organizations as FAO, ITC, the United Nations International Drug Control Programme (UNDCP), UNCTAD, UNDP, UNIDO and WTO, as well as the Bretton Woods institutions support national efforts to diversify domestic production and import-export trade patterns. They provide Governments and business associations or firms with substantive advisory services. These activities cover a wide range, from the establishment of distribution networks and financial management to technological upgrading and innovation, identifying either new markets or new potentials in old markets, sometimes moving up in the quality scale and accessing new segments of the export markets.

75. A more harmonized and coordinated approach among various United Nations system organizations has been recently attempted in this domain, as regards the least developed countries through the Integrated Framework for Trade-Related Technical Assistance, Including for Human and Institutional Capacity-Building, to Support Least Developed Countries in Their Trade and Trade-Related Activities (Integrated Framework). The joint programme, adopted in October 1997 by a high-level meeting of integrated initiatives for least developed countries' trade development, involves six organizations, IMF, ITC, UNCTAD, UNDP, the World Bank and WTO. Forty least developed countries participate in the programme, which needs the full support of the international community.

76. One of the key aspects of operational activities for development is facilitating the transfer of technology and expanding the access to technological information, and the creation of information flows on affordable and sustainable technology which is suitable to a specific country, establishing information networks with relevant institutions and business firms. Such organizations as the United Nations Educational, Scientific and Cultural Organization (UNESCO), the International Telecommunication Union (ITU), WTO, FAO, the International Fund for Agricultural Development (IFAD), the ILO, UNIDO, the World Food Programme (WFP), UNDP and the World Bank promote several initiatives that aim at adapting technologies to local conditions.

77. It should be noted, however, that the scale of the United Nations system assistance in these key areas is quite modest given the limited resources available for such activities. Such a limited allocation of resources to areas that directly relate to the positive dimensions of globalization is due to two main reasons: (a) the stagnation of funds for operational activities for development in general, and (b) the relative increase of proportion of resources directly devoted to human development related activities. Resources from the private sector are sometimes used to compensate for the reduced availability of grant resources. Business companies directly interested participate in funding some activities with their own resources, e.g., sharing the cost of training and similar activities. Given the trends of resources for development and the competing demand for facing the negative consequences of globalization, these alternative sources of funding may become more important in the future.

78. One way to reduce the negative consequences of the declining resources for development activities related to the positive dimensions of globalization should be increased collaboration among system organizations in this area, as in the case of the Integrated Framework and other joint programmes, such as the WTO, UNCTAD and ITC joint efforts in the area of trade. This could help to generate greater support from donor countries.

4. External debt management

79. The expansion of capacities to deal with external debt management is supported through various programmes of technical cooperation promoted by UNDP, UNCTAD, the World Bank and IMF, often in collaboration with regional banks. They include cooperation programmes that provide advisory services and training to such institutions as central banks, financial ministries or specialized government agencies in charge of external debt servicing and its management, increasing their institutional capacity to monitor and manage debt servicing.

5. Social dimensions in the globalization processes

80. The increasing integration of developing countries and economies in transition in the world economy has required structural adjustment and economic reforms. The social costs of those reforms are often significant. The recurrent financial crises of recent years have also imposed heavy costs a large proportion of which is borne by the poor and vulnerable segments of the population. The United Nations system has responded by providing humanitarian assistance and by helping countries to create social safety nets.

81. In responding to the Asian crisis, ACC issued a statement in October 1998, stressing the importance of fostering a global commitment of the United Nations system to:

(a) Monitor the impact of the crisis on societies and individuals;

(b) Assist individual countries carry out the necessary structural and institutional reforms;

(c) Help to strengthen or build basic social services, livelihood opportunities and social safety nets for the least fortunate;

(d) Forge close links between the United Nations and the World Bank, including through the World Bank's proposal to work together towards comprehensive development frameworks led by the Government of the country concerned.

82. The Consultative Committee on Programme and Operation Questions (CCPOQ) and the United Nations Development Group (UNDG) are pursuing the follow-up to this commitment, including through such cooperating frameworks as the common country assessment and the

United Nations Development Assistance Framework (UNDAF). This joint effort needs to be intensified in a systematic manner with a clear vision and broadened to include a collaborative approach with the Bretton Woods institutions, the regional commissions and regional development banks.

VI. Conclusion

83. Globalization and its impact will remain a central issue on the development agenda in years to come. There can be no doubt that the United Nations system will play a central role in grappling with the forces of globalization, particularly, as the present report has argued, with regard to promoting greater policy coherence and, even more importantly, building institutional capacity at all levels. These twin challenges are complex and often intertwined. For the Organization to address them in a meaningful way, it is essential that it continue to identify issues that not only lend themselves to better structured intergovernmental deliberations but also lead to tangible results at the global, regional and national levels.

Notes

[1] See UNDP, *Human Development Report 1999*, p. 109.